

**Annual Report
1972**

***Francana
Development
Corporation
Limited***

Francana Development Corporation Limited

612 St. James St.
Montreal 101, Quebec
(514) 845-7114

Directors

B. Lechartier, Chairman of the Board.
Chairman,
Crédit Foncier Franco-Canadien.
Vice President, Bank of Montreal.

H.R. Fraser,
President, Anglo American Corporation
of Canada Ltd.
Chairman, Hudson Bay Mining & Smelting
Co., Limited.

R. Lavoie,
President & General Manager,
Crédit Foncier Franco-Canadien.

G.J. Risby,
Director and Vice President, Anglo
American Corporation of Canada Ltd.

M. B. Harding,
Assistant General Manager—Finance,
Crédit Foncier Franco-Canadien.

Officers

R. Lavoie,
President and Chief Executive Officer.

M. B. Harding,
Vice President.

M. M. Lessard,
Vice President.

A. Bineau,
Secretary.

C. Richard,
Treasurer.

Subsidiaries

Frاندevcor Ventures Ltd.

M.M. Lessard,
Vice President.

C.D. Hyde,
Assistant Vice President.

Frاندevcor Investments Ltd.

A. Bineau,
Vice President.

Frاندevcor Explorations Ltd.

M. B. Harding,
Vice President.

Report to the Shareholders

The consolidated net profit of Francana Development Corporation Ltd. and its wholly-owned subsidiaries was \$780,000 for 1972, compared with \$547,000 for the previous year. The improvement in profits reflects a significant improvement in the results of Frandevcor Investments Ltd., one of the company's subsidiaries. In line with these improved results, your Company increased its dividend payment to \$370,000 in 1972, from \$250,000 in 1971.

The consolidated book value of assets increased by \$409,000 during the year to \$15.3 million on December 31, 1972. The net value of these assets at year end, taking quoted assets at market value and unquoted assets at cost, was \$38.9 million compared with \$23.5 million at the end of 1971.

During the year, your Company and its subsidiaries invested an additional \$1.9 million in five different situations. Of this amount, \$700,000 was in the form of loans and \$1.2 million was invested in common and preferred shares.

The ownership and the issued capital of Francana Development Corporation Ltd. did not change in 1972. Crédit Foncier Franco-Canadien owns sixty percent of the Company's outstanding shares and Anmercosa Investments Ltd., a wholly-owned subsidiary of Anglo American Corporation of Canada Limited owns forty percent.

Hudson Bay Mining and Smelting Co., Limited

Francana Development Corporation Ltd.'s shareholding of Hudson Bay Mining and Smelting Co., Limited amounts to 456,000 common shares, equivalent to approximately five percent of that company's issued capital stock.

Higher prices for zinc combined with the absence of major labour difficulties resulted in improved earnings for Hudson Bay Mining in 1972. The company's net income for the year ended December 31, 1972 amounted to \$11.4 million or \$1.26 per share before extraordinary write-offs of \$8.5 million for the Wellgreen Mine in the Yukon which reduced earnings to \$2.9 million or \$0.32 per share, a slight decrease from \$0.33 per share in 1971, a year affected by a five month strike. Dividends paid totalled \$0.80 per share in 1972 compared to \$0.50 in 1971.

Hudson Bay Mining reported that proven ore reserves of its various mines in the Flin Flon-Snow Lake area totalled 17,283,600 tons at year end, averaging 2.95% copper and 3.3% zinc.

During 1972, the company carried out an exploration program, on its own and jointly with Anglo American Corporation of Canada Limited, in Manitoba, Saskatchewan, British Columbia, the Yukon, Ontario, Quebec and in the southwestern U.S.A. Two new mines, White Lake Mine and Ghost Lake Mine, were brought into production during the year while the Flexar Mine ceased production.

A number of programs were implemented which resulted in increased efficiency and productivity of the operations in the Flin Flon-Snow Lake area. Production of blister copper from the company's own ores was increased by 8% above results achieved in 1970, the last year of full operation. Improvements in metallurgy in the smelter operations allowed an increase of 17% in the throughput of concentrates over 1970, and left surplus capacity which was used to treat concentrates either on a toll basis or purchased from other companies for Hudson Bay Mining's own account.

The Sylvite of Canada division, in its second year of operations, had a successful year shipping 497,351 tons of muriate of potash compared with 464,000 tons in 1971. Sylvite operated profitably even at the low level of production imposed by Government rationing regulations, which was below 50% of the industry's capacity.

Francana Oil & Gas Ltd.

Francana Development Corporation Ltd.'s shareholdings of Francana Oil & Gas Ltd. increased by 20,000 shares from the conversion of 5% preferred shares, to 1,713,000 shares equivalent to 34.3% of its outstanding capital stock as of December 31, 1972. Francana Oil & Gas Ltd. is a junior oil and gas exploration and production company, which is controlled by Hudson Bay Mining and Smelting Co., Limited, and whose shares are listed on the Toronto and Montreal Stock Exchanges.

Francana Oil & Gas Ltd. had revenues of \$2,968,000 in 1972, a 14.4% increase over 1971. Crude oil sales were 19% higher at 1.2 million barrels and natural gas sales increased 53% to 2.3 billion cubic feet. The Company's cash flow of \$1,957,000 in 1972 was virtually unchanged from 1971. Net earnings for the year amounted to \$650,000 compared to \$814,000 for the preceding year; the decrease in earnings resulted mainly from an increase in depreciation charges and from higher interest costs on debts incurred to acquire assets late in 1971.

During 1972, Francana Oil & Gas Ltd. participated directly in the drilling of 24 wells and indirectly, through land contributions by way of farmout, in the drilling of another 25 wells. This program resulted in 10 oil wells and 9 gas wells. The company maintained its proven crude oil reserves at 15.4 million barrels and proven and probable reserves totalled 19.9 million barrels. At year end, proven natural gas reserves were up by approximately 14% to 84.1 billion cubic feet and total proven and probable reserves reached 92.4 billion cubic feet.

Francana Oil & Gas Ltd. holds 22% of the outstanding capital stock of Trend Exploration Limited, a privately held junior petroleum and mineral exploration company based in Denver, Colorado. During 1972, Trend Exploration Limited participated in an oil discovery in Indonesia; the drilling of development wells is currently in progress, and it is planned to have the field in production by the Fall of 1973.

Through its various holdings in the Arctic, the Beaufort Sea and Eastern Canada offshore, Francana Oil & Gas Ltd. is well represented in the major sedimentary basins of Canada. At year end, the company held working interests in 5.9 million gross acres equivalent to 1.2 million net acres, and royalty interests in 1.2 million acres. Through its equity interest in Trend Exploration Limited, the company also has good exposure to international exploration.

Frاندevcor Ventures Ltd.

Frاندevcor Ventures Ltd., a wholly owned subsidiary of Francana Development Corporation Ltd., invests through junior debt and minority equity participations in established, well-managed companies that require capital preferably for expansion or to finance acquisitions. Frاندevcor Ventures Ltd. does not seek control of companies in which it invests nor does it intend to manage any company with which it is associated. The Company is however in a position to provide assistance in the policy, planning and financial areas to the management of companies in which it becomes involved.

The Company's largest investment is in Transport Centre Inc., the second largest Canadian bulk trucking group whose major subsidiary is Provost Cartage Inc. This company operates in Eastern Canada and the Northeastern U.S.A. During 1972, it consolidated its competitive position within its market area through an important acquisition in the Maritimes.

Another sizeable investment in the Canadian trucking industry was completed during 1972, by providing the capital required by Quebec Ontario Freightways Inc. to make an important acquisition. Quebec Ontario Freightways Inc. is a holding and management company which operates, through its subsidiaries, Champlain Sept-Iles Express Inc. and Eastern Asbestos Interprovincial Inc., a general freight system serving Toronto, Montreal, Quebec, Sept-Iles and intermediate points.

Frاندevcor Ventures Ltd. has a minority participation in Sterisystems Ltd., whose shares are quoted on the Toronto over-the-counter market. Sterisystems Ltd. is active in the hospital television rental business as well as in the distribution of communications equipment, instruments and supplies to hospitals across Canada. The company had a successful year that saw a considerable growth in the number of beds wired as well as in its Stericomm and Sterimed Divisions. The company's earnings in 1972 were \$295,000 compared to \$192,000 for the previous year.

The Company increased its investment in Dad's Industries Limited, a producer of cookies with plants in Toronto, Regina and Calgary. The company's operations continued to progress well during 1972 and the results for the year were most gratifying. Late in the year, the company made arrangements to acquire an established biscuit producer with production facilities near Montreal. This acquisition was completed in January 1973.

Frاندevcor Ventures Ltd. also has a minor participation in the capital stock of Scan-Optics, Inc., a U.S. company engaged in the development and marketing of optical character reading computer peripheral equipment.

During 1972, Frاندevcor Ventures Ltd. made an investment in PolyCom Systems Ltd., a Toronto based computer service company whose shares trade on the Toronto over-the-counter market. PolyCom Systems Ltd. offers time sharing, batch processing, keypunching and other related services.

Frاندevcor Investments Ltd.

Frاندevcor Investments Ltd.'s portfolio of publicly listed securities was reduced from \$2.7 million to \$2.1 million at cost during the year. The company's net profit for the year ended December 31, 1972 amounted to \$382,000 up from \$33,000 for the preceding year.

Frاندevcor Explorations Ltd.

Frاندevcor Explorations Ltd., a wholly-owned subsidiary, invests in oil and gas and mining situations. It holds 5% of the outstanding shares of Trend Exploration Ltd., a privately held junior international oil and gas and mineral exploration company which continued its successful development during the year, notably through its participation in an oil discovery in Indonesia.

Consumers Oil Ltd., the Company's other investment, is a junior oil and gas exploration company based in Calgary, which completed a \$1,500,000 financing through a private placement late in 1972.

New Investments

Francana Development Corporation Ltd., directly and through its various subsidiaries, is interested in investing in well-managed, established companies with good growth potential. It is prepared to arrange and participate in both the debt and equity financing required for expansion, acquisitions or change of ownership. The form and size of the investment is adapted to the needs of the company and will be tailored to create a capital structure which should facilitate any additional financing needed for further expansion or for eventual public ownership.

R. Lavoie,
President

March 29, 1973

Consolidated Balance Sheet

as at December 31, 1972 (Note 1)

	1972	1971
Assets		
Current Assets		
Cash	\$ 69 000	\$ 120 000
Accounts receivable	111 000	110 000
Demand or short term deposits		1 000 000
Trading securities (Note 2)	2 080 000	2 353 000
Income taxes recoverable	36 000	
	<u>2 296 000</u>	<u>3 583 000</u>
Loans	<u>1 737 000</u>	<u>1 116 000</u>
Investments, at Cost		
Quoted investments (Note 3)	9 479 000	8 951 000
Unquoted investments (Note 4)	1 776 000	1 149 000
	<u>11 290 000</u>	<u>10 135 000</u>
Other Assets	<u>3 000</u>	<u>3 000</u>
	<u><u>\$15 326 000</u></u>	<u><u>\$14 837 000</u></u>

	1972	1971
Liabilities		
Current Liabilities		
Accounts payable	\$ 33 000	\$ 20 000
Provision for income taxes		4 000
	<u>33 000</u>	<u>24 000</u>
Deferred Income	<u>73 000</u>	<u>3 000</u>
 Shareholders' Equity		
Capital stock		
Authorized		
2 000 000 common shares without		
nominal value		
Issued and fully paid		
1 000 000 shares	12 800 000	12 800 000
Retained earnings	2 420 000	2 010 000
	<u>15 220 000</u>	<u>14 810 000</u>
	<u>\$15 236 000</u>	<u>\$14 837 000</u>

Approved by the Board of Directors
 B. Lechartier, Director
 G. J. Risby, Director.

Consolidated Statement of Revenue and Expense

for the year ended December 31, 1972.

	1972	1971
Revenue		
Dividends	\$ 534 000	\$498 000
Interest	190 000	251 000
Profit (loss) on trading securities (Note 5)	297 000	(23 000)
Management fees	9 000	8 000
	\$1 030 000	\$734 000
Expense		
General expenses	\$ 125 000	\$ 114 000
Financial expenses	1 000	8 000
	\$ 126 000	\$ 122 000
Profit Before Income Taxes	\$ 904 000	\$ 612 000
Provision for income taxes	32 000	79 000
Net Profit from Operations	\$ 872 000	\$ 533 000
Extraordinary items (Note 6)	(92 000)	14 000
Net Profit for the Year	\$ 780 000	\$ 547 000

Consolidated Statement of Retained Earnings

for the year ended December 31, 1972.

	1972	1972
Balance, January 1	\$ 2 010 000	\$1 713 000
Add:		
Net profit for the year	780 000	547 000
	\$ 2 791 000	\$2 260 000
Deduct:		
Dividends	370 000	250 000
Balance, December 31	\$ 2 420 000	\$2 010 000

Consolidated Statement of Source and Application of Funds

for the year ended December 31, 1972,

Source of Funds	1972	1971
Net profit from operations	\$ 872 000	\$ 533 000
Depreciation	1 000	1 000
Funds from operations	873 000	534 000
Loans reimbursed	949 000	176 000
Investments realized—quoted		189 000
Investments realized—unquoted	208 000	26 000
	\$ 2 030 000	\$ 925 000
Application of Funds		
Loans and advances	\$ 1 500 000	\$ 77 000
Investments made—unquoted	926 000	290 000
Investments made—quoted	528 000	91 000
Dividends paid	370 000	250 000
Office equipment	1 000	2 000
	\$ 3 325 000	\$ 710 000
Increase (decrease) in working capital for the year	(\$ 1 296 000)	\$ 215 000
Working capital at beginning of the year	3 559 000	3 344 000
Working Capital at End of the Year	\$ 2 263 000	\$3 559 000

Notes to the Consolidated Financial Statements

for the year 1972

Note 1

In the accompanying consolidated financial statements, the accounts of Francana Development Corporation Ltd. have been consolidated with those of the following subsidiary companies, all of which are wholly-owned: Frandevcor Ventures Ltd. Frandevcor Investments Ltd. Frandevcor Explorations Ltd.

Note 2 Trading Securities

The portfolio of trading securities is valued as a whole at the lower of cost or market as at December 31. The book and market value was \$2,080,000 as at December 31, 1972 after provision for unrealized losses of \$68,000, and \$2,353,000 as at December 31, 1971 after provision for unrealized losses of \$372,000.

Note 3 Quoted Investments

These investments had a market value of \$33,157,000 as at December 31, 1972 and \$17,609,000 as at December 31, 1971.

Note 4 Unquoted Investments

These investments are shown at cost less an amount of \$91,000 written off in 1972.

Note 5 Profit (Loss) on Trading Securities

Realized profits or losses on trading securities are shown net of the increase or decrease in the provision for unrealized losses. The provision decreased by \$304,000 in 1972 and by \$113,000 in 1971.

Note 6 Change in Accounting Methods

Prior to 1972, extraordinary items were charged directly to retained earnings. They are now reported in the statement of revenue and expense. The 1971 figures have been restated to conform with this change.

Auditors' Report

To the Shareholders of Francana Development Corporation Ltd.

We have examined the consolidated balance sheet of Francana Development Corporation Ltd. and its subsidiaries as at December 31, 1972 and the consolidated statements of their revenue and expense, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and its subsidiaries as at December 31, 1972, the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the change mentioned in note six to the consolidated financial statements.

Samson, Bélair, Côté, Lacroix
et Associés,
Chartered Accountants.

Montreal, February 23, 1973.
